Name: ______________________

IB Economics Paper 1 — Practice Exam

Instructions: Answer ONE question. Each question is worth 25 marks: part (a) 10 marks, part (b) 15 marks. Use fully labelled diagrams where relevant. In part (b), support your answer with real-world examples. Time allowed: 1 hour 15 minutes.

Time Limit: 75 minutes

[25 points] 1. Question 1 — Microeconomics: indirect taxes and elasticity.

[10 points] (a) Explain how the price elasticity of demand for a good determines the effect of an indirect tax on the market for that good.

[15 points] (b) Using real-world examples, evaluate the view that indirect taxes are the most effective way for a government to reduce the consumption of demerit goods.

[25 points] 2. Question 2 — Macroeconomics: monetary policy and inflation.

[10 points] (a) Explain how a central bank can use monetary policy to reduce demand-pull inflation.

[15 points] (b) Using real-world examples, discuss the effectiveness of monetary policy in achieving low and stable inflation.

[25 points] 3. Question 3 — The global economy: tariffs and protectionism.

[10 points] (a) Explain, using a diagram, the effects of a tariff on the domestic market for an imported good.

[15 points] (b) Using real-world examples, evaluate the arguments for and against a government adopting protectionist policies.